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Grassley Seeks Details on the United Way's Financial Management

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, today asked the national United Way to explain how it ensures chapter integrity and the Washington, D.C.-area chapter to explain how it manages donations. Grassley's inquiry comes after allegations of financial mismanagement at the Washington, D.C.-area chapter.

"Giving to a charity isn't a frivolous act," Grassley said. "People think hard about how much they can afford and where their money will do the most good. Charities should treat them accordingly. The more transparency from charities to potential donors, the better. Transparency instills public confidence."

Grassley's letter to the United Way follows his ongoing correspondence with the American Red Cross, which has been criticized for its delivery of Sept. 11 relief and its chapter management. Grassley also worked to include greater reporting or "sunshine" provisions in the charitable giving bill passed by the Finance Committee in June.

The text of Grassley's letter to the United Way of America and the United Way of the National Capital Area follows.

August 20, 2002

Via Regular Mail and Telefax: United Way: 202-488-2082; National Capital Area: 703-683-7846

Brian Gallagher
President and Chief Executive Officer
United Way of America
701 North Fairfax Street
Alexandria, VA 22314

Norman O. Taylor
Chief Executive Officer
United Way of the National Capital Area
95 M Street SW
Washington, D.C. 20024-3622

Re: United Way Accountability to its Directors and Donors

Dear Messrs. Gallagher and Taylor:

As Ranking Member of the Senate Committee on Finance (Committee) with jurisdiction over tax-exempt organizations including charities, I am committed to help ensure that U.S. charities prioritize accountability to maximize their financial relief to those in need. While I continue to praise the mission of the United Way of America (United Way) and its approximate 1,400 community-based United Way organizations dedicated to improving people's lives, I am concerned about allegations regarding mismanagement, misuse of funds, and inflated fund-raising totals at the United Way of the National Capital Area (National Capital Area).

The Washington Post reports, "[National Capital Area] has acknowledged that it has taken credit for millions of dollars in contributions it never handled; has withheld from charities more than \$1 million it collected for them; and has covered its overhead by deducting as much as 45 percent from contributions in some situations." (August 14, 2002; Pg. B01.) Perhaps for this reason, representatives of the National Capital Area met on August 15, 2002, with executives from major local companies to announce that they are delaying the fall annual fund-raising drive for a month. It is reported that, "The support of the executives . . . is crucial to the health of the local United Way, which collects \$10 million to \$20 million annually from their employees." (*Id.*, August 15, 2002; Pg. B01.)

Today I write to understand how the National Capital Area seeks accountability for each donation received as well as United Way's management system to ensure chapter integrity. I am sure you will agree that people think hard about how much they can afford and where their money will do the most good. Charities should treat them accordingly. The more transparency from the United Way and its community-based organizations to potential donors, the better. Transparency instills public confidence.

To encourage the spirit of patriotic giving to the United Way and its 1,400 community-based organizations that I will call chapters for purposes of this inquiry, I appreciate your responses to the following questions. For your convenience, I have divided these questions into categories for the National Capital Area and United Way.

Allegations of Improper Accounting and Misuse of Funds: Questions for the National Capital Area

1. At an August 15, 2002, meeting of National Capital Area representatives including Mr. Taylor and executives from major local companies, Mr. Taylor allegedly "spoke briefly about management reforms and cost cutting the organization has undertaken" in response to allegations of mismanagement and misuse of funds. (*Id.*) Please describe in detail these reforms and other remedial measures, and produce all documents relating thereto.
2. The United Way's Web site states that, "A vast network of volunteers keeps administrative expenses low, averaging 13 percent of all funds raised at the largest United Ways. This figure compares favorably with Better Business Bureau guidelines of up to 35 percent." As queried by *The Washington Post* on May 26, 2002, please provide the following information:
 - a. Exactly how much of every dollar goes to the agencies specified, and how

- much goes for administration?
 - b. Exactly what is the administration spending, and for what?
 - c. How might administration spending be reduced?
- 3. For the past five (5) years, please describe the sources and amounts of your funding to include from any government entity as well as from taxpayers. Of this amount, provide the following information:
 - a. State how much of that money is paid, directly or indirectly, at any time, to professional fund raisers.
 - b. Describe how much of that money is allocated to “joint costs” on your Internal Revenue Service Form 990 (Form 990).
 - c. Describe the program services delivered as part of the joint costs.
 - d. Produce copies of your Forms 990 for the past five (5) years.
- 4. I was concerned to learn of allegations brought by a former National Capital Area board member, Ross W. Dembling, relating to expenses for travel that had little or no relation to United Way’s mission, and that \$85,000 allocated to make restrooms more accessible to the handicapped had gone to decorate Mr. Taylor’s office as the charity’s new chief executive. According to *The New York Times*, “Mr. Dembling also complained about a consulting contract for Mr. Taylor’s predecessor, Oral Suer, that pays Mr. Suer \$6,000 a month for a year, as well as up to \$5,000 in monthly expenses. The full board was unaware of the contract until Mr. Dembling told members of it in a July 24 letter. The contract was approved by a board committee, but not all committee members knew about it.” (January 23, 2002; Section A; Page 16.) Accordingly, please provide the following information:
 - a. Explain National Capital Area’s procedures for investigating the veracity of allegations that in any way reflect negatively on the management and financial accountability of your organization (mismanagement, misuse of funds, inflated fund-raising totals, nepotism, etc.).
 - b. State whether any of these allegations are true. If so, explain the reason for these expenses, allocations, and contracts. Also, explain why the committee members did not know about the contract.
 - c. State whether any of these allegations violated a National Capital Area regulation or guideline. If so, identify the regulation or guideline and state whether any penalty has or will issue against the responsible person.
 - d. State whether National Capital Area has instituted any regulation or guideline in response to these allegations, and explain the purpose of that regulation or guideline.
 - e. For the past five (5) years, identify any conduct by a National Capital Area employee or volunteer that has violated its regulations or guidelines, identify the guideline, and state whether any penalty has or will issue against the responsible person.
- 5. Describe all regulations or guidelines relating to reporting requirements for actual or perceived conflicts of interest by current or former employees and volunteers. If there are no such regulations or guidelines please explain why not. If such regulations or guidelines exist, describe them and provide the following information:
 - a. State whether the reporting is mandatory or voluntary and, if voluntary, explain why.
 - b. Describe the nature of the information contained in the reports.

- c. State how often these reports are required to be filed.
 - d. Identify who reviews the reports for timeliness, completeness, and accuracy (*i.e.*, officials at United Way or an independent auditor).
 - e. Identify any penalty for failing to file in a timely, complete, and accurate manner.
 - f. Identify any United Way employee or volunteer that has failed to file a report in a timely, complete, and accurate manner, state the circumstances surrounding the actual or perceived conflict of interest, and describe any penalty that was issued. If no penalty was issued, explain why not.
6. Describe the regulations or guidelines in place that govern the National Capital Area's obligations to its board of directors, particularly relating to responsiveness and disclosure responsibilities. Also, describe the current status of the allegations at issue and state whether you believe the National Capital Area has fulfilled its obligations to the board. Further, for the past five (5) years, please list any information requested by but not given to the board of directors.

Accountability: Questions for United Way

7. Please answer the following questions concerning United Way's relationship to the chapters:
- a. Describe all guidelines for uniform record keeping, financial reporting, and use of funds by the chapters.
 - b. With particular regard to financial reporting by the chapters, provide the following information:
 - (i) State whether chapters are required to give periodic financial reports to United Way. If so, describe the information contained in these reports and state how often these reports are required to be filed.
 - (ii) Describe how these reports are reviewed for accuracy, and state who conducts the review.
 - (iii) Describe any penalty for failing to file in a timely, complete, and accurate manner.
 - c. Describe United Way's oversight procedures for ensuring that its chapters adhere to their membership agreements.
 - d. Describe United Way's procedure for sanctioning a chapter, to include what action by a chapter will lead to a sanction by United Way and the type of sanction.
 - e. Has United Way ever revoked the charter of a chapter? If so, describe the circumstances for the revocation and state whether that chapter's employee or volunteer was disciplined in any way related to the revocation. In the case of disciplinary action, describe whether United Way, the chapter, or another entity decided on the nature of and carried out the disciplinary measure.
 - f. Besides charter revocation, identify any sanction that United Way has issued against a chapter for the past five (5) years. Specifically, describe the circumstances for the sanction to include who received the sanction, what for, and whether United Way, the chapter, or another entity decided on the nature of and carried out the sanction. Also, state whether that chapter has received any subsequent penalty and, if so, describe the nature of the penalty.
8. Please respond to the allegations about misreporting of funds raised and

inappropriate expenses, allocations, and contracts made by the National Capital Area. Kindly include the following information in your response:

- a. When did United Way first hear of these allegations?
 - b. Explain United Way's procedures for investigating the veracity of allegations of improper conduct by a chapter employee or volunteer.
 - c. Does United Way have a penalty structure for violations of any United Way regulation or guideline by a chapter? If so, explain the nature of this structure to include information about the violations, penalties, and any appeal process.
 - d. Are the allegations against the National Capital Area true? If so, state whether the allegation violated a United Way regulation or guideline. If so, identify the regulation or guideline and state whether any penalty has or will issue against the responsible person or against the National Capital Area chapter.
9. State whether United Way or any chapter has been audited by any governmental or private/internal entity in the past 10 years and, if so, please state the findings.
 10. Please describe any uniform qualification or performance standard for United Way officers at the national or chapter level, and produce any United Way document provided to the chapters related thereto. Also, explain United Way policy for hiring and firing United Way and chapter employees and volunteers.
 11. Concerning the funds that have been donated to United Way, its chapters, and particularly the September 11 Fund in response to the terrorist attacks of September 11, 2001, *The Washington Post* has raised concerns that, "A full accounting of how hundreds of millions of donated dollars were spent may not ever be possible because the funds often are distributed through a network of smaller nonprofits... Experts in philanthropy argue that a careful accounting of the funds raised since Sept. 11 is critical because public opinion on whether the money was well spent could affect charitable giving long into the future." (June 11, 2002; Pg. A01.) Please describe in detail how United Way intends to account for the funds distributed, and identify a point of contact for my Committee staff to follow-up with regarding this issue of accountability.

Thank you for your cooperation. Given the timeliness of this information, I appreciate your providing me with your complete responses by September 23, 2002.

Sincerely,

Charles E. Grassley
Ranking Member

cc: The Honorable Max Baucus, Chairman, Senate Committee on Finance